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SUBJECT: UAE MINSTATE FINANCE KHIRBASH ON JAN 30-FEB 1 FTA
NEGOTIATIONS

REF: ABU DHABI 192

11. (SBU) Summary: Ambassador met Minstate Finance Dr. Khirbash on January 25 to discuss the upcoming January 30-February 1 London FTA negotiating round. She stressed our interest in working with the UAE to conclude an FTA that addressed its concerns but was also consistent with the principle that all levels of government and all sectors (with narrow exceptions) would be within the scope of the agreement. Ambassador and Dr. Khirbash agreed on the need to maintain momentum in London. Dr. Khirbash said that he would propose moving the most contentious issue (jurisdiction) to the "political level" so that negotiators could focus on making progress on other areas. Ambassador told Dr. Khirbash that we had received an official proposal from the MFA the day before on visas/movement of persons and the FTA. She stressed that visas are not within the scope of the FTA, but that we had transmitted the UAE draft text to Washington for comment (septel). End Summary.

12. (SBU) On January 25, Ambassador and Econchief met with Minstate Finance Dr. Mohammed Khalfan bin Khirbash and A/US Khalid Al-Bustani to discuss the upcoming January 30-February 1 London FTA negotiating round. Ambassador told Dr. Khirbash that we wanted to be sure that the negotiators maintained their momentum during the upcoming round. She noted that she had spoken with MinEcon Sheikha Lubna Al-Qasimi, and that Sheikha Lubna had said that she hoped the discussion would not get &deadlocked.8 (Note: Sheikha Lubna and Dr. Khirbash are the UAE FTA co-chairs. End note.) Dr. Khirbash agreed, adding that he knew both governments were committed to moving forward on the FTA. He said that he had briefed Dubai Ruler and UAE Vice President Sheikh Mohammed bin Rashid Al-Maktoum (MbR) on January 22 about the results of the January 16-17 FTA investment discussions and on the upcoming negotiating round. He said that MbR was following the negotiations with keen interest and that he had the government,s support and trust for negotiating this FTA.

13. (SBU) Dr. Khirbash identified four areas that he said had proven to be tough: telecoms, investments, financial services, and the related issues of jurisdiction (i.e. natural resources), security of assets, and taxation. He added that jurisdiction looked like the major sticking point. He told Ambassador that his proposal was to shift the issue of jurisdiction to the "political level." This would allow the negotiators to focus on resolving other issues and -- hopefully -- ensure that they maintained their momentum. He said that he planned to propose this to Minister of Information and Abu Dhabi ruling family member Sheikh Abdullah bin Zayed Al-Nahyan and intended to talk to AUSTR Donnelly on Friday.

14. (SBU) Al-Bustani noted that the UAE would propose having

the lead negotiators meet on Monday January 30, in advance of the investment talks, and look for ways to get the investment negotiators on track and not allow the talks be held hostage to jurisdiction. Al-Bustani stated that the negotiators should be able to highlight areas of difficulty to lead negotiators, who could either solve them) or refer them to capitals. Al-Bustani reiterated the UAE,s commitment to work through difficult issues and urged that we look at these issues in a spirit of partnership rather than a reason to stop negotiations. He said that when negotiators heard &let,s quit8 in response to problems or difficult discussions, it left a bad feeling. Ambassador stressed that the USG wanted to work with the UAE in order to find an approach that addressed the UAE,s concerns and is consistent with the basic premise of an FTA that all levels of government and all sectors are within the scope of the agreement (subject to narrow exceptions) -- a comprehensive document.

¶5. (SBU) Dr. Khirbash said that while both sides, negotiators tended to focus on details, it was important for our respective governments (and lead negotiators) to look at the &bigger picture8 and the practical benefits of an FTA. Speaking frankly, he acknowledged that the original London high-level meeting had been tough, but that the London negotiating round had been a "fantastic example" of partnership. If we can repeat this effort, he said, he was optimistic of making good progress in the round.

¶6. (SBU) Turning briefly to specifics, Dr. Khirbash cited telecoms and defense procurement. On telecoms, he said that the U.S. needed to understand that the UAE had just broken its telecom monopoly with a new company, which would only be fully operational by the end of 2006. For this reason, he

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said, the UAE did need time before opening up the sector. (Note: The new telecom company is government owned, although the UAE plans to issue an IPO for a minority stake.) Al-Bustani brought up the issue of defense procurement, explaining that this was an issue of offsets. Ambassador (drawing from USTR provided points) said that defense procurements, with exceptions for sensitive items and national security, are intended to be included in an FTA. She added that she understood the UAE,s concerns about their offsets requirements, but noted our understanding that offsets only applied on procurements over \$10 million, so that there certainly should be areas where an FTA could cover defense procurements. Al-Bustani said that the Ministry of Defense would be sending a person to the procurement discussions. Ambassador informed Dr. Khirbash that UAE MFA had passed a draft MOU on visas to Econchief on January 24, with the request that it be signed in parallel with the FTA. Ambassador reiterated that we were not in a position to sign anything on visas in the context of an FTA. She added that we have passed the MOU back to Washington for feedback on its substance, but cautioned Dr. Khirbash that he should have no expectation that AUSTR Donnelly would be able to give any feedback on the document in London. (Note: MOU faxed to desk. Text of MOU being sent Septel.)
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